



## SECTION 2

# The Activity View of the Budget

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## 2.1 The Activity Inventory is an activity view of the budget

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### **Agencies will also present the budget by activity**

Agencies must prepare and submit an activity view of the budget in addition to the traditional decision package orientation described in chapters three through six. The Budget Development System (BDS) supports this requirement to include activity description and performance measure information in the budget database.

### **What is an activity?**

An activity is something an organization does to accomplish its goals and objectives. An activity consumes resources and provides a product, service, or outcome. One way to define activities is to consider how agency employees describe their jobs to their families and friends. On behalf of the state's citizens, we basically want to know, "What do you do? For whom? Why is it valuable?"

Activity descriptions tend to be better than program descriptions at revealing the nature and purpose of the work performed by state government. The activity view of government has come to play an important role in the Priorities of Government process, budget analysis and decision-making.

### **The Activity Inventory describes what agencies do**

The Activity Inventory describes the major activities of each agency. Each activity description should include the following information:

- A title that describes the nature of the activity (rather than an organizational name);
- A brief description of the activity, its purpose, and its intended recipient or beneficiary;
- The expected results of the activity (conveyed as one or more performance measures and/or as a concise narrative description of outcomes);
- The primary statewide result area to which the activity contributes; and
- Other statewide result areas to which the activity contributes.

## 2.2 Agencies must recast the 2006 budget by activity

### Agencies are required to update activity estimates by April 14

After the 2006 supplemental budget is signed into law, agencies must update their estimated costs of agency activities to reflect the new budget. Agencies will use BDS to recast the enacted budget by activity. **The recast budget must be released to OFM by April 14.** We expect agencies will have at least two weeks from the time the budget is signed by the Governor until the recast is due. We regret the short time frame, but this will enable agencies to use the recast budget as the base in BDS for building the 2007-09 budget.

### Update the activity inventory amounts using BDS

Activity estimate updates for the 2006 supplemental budget will be completed using BDS in an Enacted Recast, First Year Supplemental version. Agencies will have two choices on how they want to recast the enacted budget:

1. Enter a bottom-line total budget for each activity by fiscal year and account in a decision package (PL-9Z).
2. Copy an existing version by activity to enacted version and update, delete, and add decision packages to reflect the enacted budget.

Steps for both options are described in the Enacted Budget Recast tutorial available at

<http://systems.ofm.wa.gov/basspr/library/enactedrecast.pdf> or, for those outside the state firewall, at <https://fortress.wa.gov/ofm/systems/basspr/library/enactedrecast.pdf>.



**NOTE:** BDS has added a function to copy the Enacted Budget version for the first year supplemental to create the version base for 2007-09 by summing the total recast and inserting this into a CB-00 decision package.

### Changes to Activity Titles and Descriptions

Due to the short turnaround time to complete the recast, we suggest that changes to the activity information be limited to adding new activities that were created in the supplemental budget. We suggest title, description and other changes be deferred until the development of the 2007-09 budget. Please contact your OFM analyst if you believe an activity needs to be added.

## 2.3 What are the budget submittal requirements?

### Agencies must present certain subtotals and decision packages by activity

Agencies are required to assign certain budget totals and increments to activities in order to build a complete activity view of the budget. To prepare this view, agencies at a minimum must:

1. Allocate the maintenance level subtotal to activities, and
2. Allocate each performance level decision package to the affected activities.

These requirements are described in greater detail below. Presenting the current biennium level total, maintenance level subtotal, and the performance level decision packages by activity will provide an activity view of the total budget for the agency.

<b>Current Biennium Totals:</b>	<b>Agencies will provide this with the recast of the 2006 supplemental budget</b>
+ Carry-forward increments:	Optional by activity
+ Maintenance level increments:	Optional by activity
<b>Subtotal Maintenance Level:</b>	<b>Required by activity</b> (Maintenance Level Total -- can be viewed by activity)
<b>+ Performance level increments:</b>	<b>Required by activity</b>
<b>Proposed Budget Total:</b>	<b>Can be viewed by activity</b>

### Allocate maintenance level to activities



The agency budget submittal must present the maintenance level totals (by account and fiscal year) by activity. Agencies may choose to assign the costs of some or all carry-forward or maintenance level decision packages to activities, but this is not required. In some way, the entire subtotal must be assigned to activities to provide the activity view of the budget through maintenance level. The agency budget cannot be submitted to OFM until all these costs and FTEs have been assigned to activities.

BDS provides various options for agencies to assign these costs – by account and fiscal year – to activities. Most agencies have found entering each increment by activity to be the simplest method to meet this requirement. If your agency finds this option less feasible, please contact the BASS Help Desk at (360) 725-5279 or [bass-request@listserv.wa.gov](mailto:bass-request@listserv.wa.gov) to explore the option that may be best for your agency.

**Allocate each performance level decision package to activities**

Agencies are required to indicate how the costs – by account and fiscal year – and FTEs of each Performance Level decision package should be assigned to activities. BDS enables users to indicate the activity costs by account and fiscal year for each decision package.

**Adjust activity descriptions to reflect the budget submittal—requests to add or delete activities must be made to OFM by June 30**

Agencies will have the ability to edit activities if needed to reflect the budget proposal. To eliminate the need for OFM to review and edit every activity description submitted, most of the activity description fields for existing activities will be locked. Please contact your OFM analyst or Linda Swanson at [Linda.swanson@ofm.wa.gov](mailto:Linda.swanson@ofm.wa.gov) if you believe a locked activity description needs to be edited.



If agencies would like to add or delete activities to support their budget requests, we ask that they submit a proposal to their OFM analyst by June 30. (Proposals are welcome anytime before this.) The proposal should provide a clear picture of the “before” and “after” set of activities. Please include:

- The current list of agency activities and descriptions
- The proposed list of agency activities, explaining where current activities have been merged or split
- A brief explanation of the reason for the requested change

OFM will review the proposal, considering how the proposed change in information will affect the budget decision process, and provide a decision to the agency as soon as possible.

**Provide information about non-budgeted funds supporting activities**

Because the activity inventory is now a part of the budget system, the numbers reflected in the activity totals will only reflect budgeted funds. If an agency has an activity that is significantly supported by non-budgeted revenues, please mention this in the activity description and note the dollar amount and fund source.

**Include the Activity Inventory report in the budget submittal**

Agencies are required to include a copy of the Agency Activity Inventory report in their submittal. This report can be run in the BDS section of Enterprise Reporting. The report will include the descriptive information for each activity, including linked performance measures and expected results statements. See Section 9 for a discussion of performance measures.

## 2.4 How to treat administrative costs in the Activity Inventory

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**Activity costs should include related administrative costs essential to support that activity**

The activity inventory should provide a reasonable estimate of the full cost of activities. Part of the full cost of any activity would include related administrative costs that are essential to support the activity.

Administrative costs can be broken into two components: indirect costs and overhead costs. These instructions describe how to handle these two types of costs in the activity inventory.

**Definitions**

We realize many of the cost terms used here mean different things in different organizations. Please use the definitions below for the purpose of developing activity inventory estimates.

**Allocate indirect costs to activities**

**Indirect costs** are administrative costs that are linked to two or more activities, are closely related to and tend to vary with activity level or size, but usually cannot be practically or economically assigned as direct charges. These costs should be assigned to activities through cost allocation and included in the total cost of the activity in the activity inventory.

Types of costs that could be classified as indirect costs may vary from agency to agency, but here are some possible examples:

- Rent costs (if these are not already direct charged)
- Postage costs
- Software development and information technology support costs
- Other shared administrative costs that are closely related to activity levels and size

**Show overhead costs as a separate “administration” activity**

Every agency has some core administrative functions and costs regardless of the number or size of its activities. These **overhead costs** usually support the entire organization, are not directly attributable to specific activities, and tend to be relatively fixed and not readily affected by fluctuations in activity levels. These costs should not be allocated to activities because they are not “caused” by the activity. Indicate these costs separately in one “Administration” activity in the activity inventory.

Types of costs that could be classified as overhead costs may vary from agency to agency, but here are some possible examples:

- Salary and support costs for the agency director
- Core portions of accounting, budgeting, personnel, communications, and receptionist functions
- Other shared administrative costs that are not closely related to activity levels and size

OFM is not concerned that each agency classifies the same type of cost in the same way. We most want to ensure that activity costs include administrative costs that are critical to support the activity and achieve its intended outcomes.

**Certain agencies are not required to have a separate administrative activity**

As part of the update to the activity inventory in the fall of 2003, OFM determined that some agencies (those with only a few activities) were not required to break out overhead costs as a separate administration activity. These agencies do not need to add an administrative activity for the budget submittal.

**How should indirect costs be allocated to activities?**

Indirect costs should be assigned to activities on some generally accepted cost allocation basis. We encourage agencies that already use a cost allocation methodology for some accounting purposes to use that method to allocate indirect costs to activities. Other possible approaches to allocating indirect costs to activities include, but are not limited to:

- Allocating by the number of FTEs in each activity
- Allocating by the total dollars budgeted for each activity
- Allocating by one or more bases that serve as good surrogates for the costs caused by each activity. For example: IT staff costs by the number of personal computers or rent costs by the number of square feet.

**Provide allocation information to OFM**

The allocated costs should be included in the total costs for the activities. Agencies must also provide the following information in the agency budget submittal about the cost allocation approach:

- The total amount of indirect costs allocated
- A brief description of the allocation method selected
- The allocation percentage for each activity (percentage of the total indirect cost the agency allocated to each activity)
- The dollar amount allocated to each activity each fiscal year.

Please use a format similar to that shown below. Please send an electronic copy to [Linda.Swanson@ofm.wa.gov](mailto:Linda.Swanson@ofm.wa.gov).

<b>Activity Inventory Indirect Cost Allocation Approach</b>				
Agency ABC				
Date				
<b>Allocation Method Description:</b> Total indirect costs were allocated to activities based on the number of FTEs in each activity.				
	<b>% Allocation Received</b>	<b>Dollars Allocated FY1</b>	<b>Dollars Allocated FY2</b>	<b>Total Allocated</b>
Activity A	20%	\$200,000	\$250,000	\$450,000
Activity B	50%	\$500,000	\$625,000	\$1,125,000
Activity C	10%	\$100,000	\$125,000	\$225,000
Activity D	20%	\$200,000	\$250,000	\$450,000
Total	100%	\$1,000,000	\$1,250,000	\$2,250,000